

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 NEA-10 ISO-00 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 FEA-02 FPC-01

H-03 INR-10 INT-08 L-03 NSAE-00 NSC-10 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SPC-03 SS-20 STR-08 TRSE-00 PA-04

PRS-01 USIA-15 DRC-01 /198 W
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R 200845Z FEB 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 115

INFO AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY ROME

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L TOKYO 2280

STATE ALSO T/IEP

E.O. 11652: GDS

TAGS: ENRG, JA

SUBJECT: ENERGY: JAPANESE RESTRAINT IN RECENT DD OIL SALE

REF: A. TOKYO 1991 B. KUWAIT 0658

SUMMARY: IN WHAT MAY PROVE TO BE MEANINGFUL DEVELOPMENT
IN WORLD OIL TRADE, GOJ APPARENTLY SUCCEEDED IN INFLUENCING
JAPANESE FIRMS TO BID RELATIVELY LOW PRICES IN RECENT
KUWAIT OIL SALE. MITI INFORMATION RE PROBABLE EUROPEAN
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BIDS, AS WELL AS ADVANCE WORD ON PRODUCT PRICE LEVELS

MITI WILL ALLOW IN DOMESTIC MARKET WHEN PRICE FREEZE IS LIFTED, APPARENTLY CONVINCED JAPANESE FIRMS TO KEEP BIDS BELOW \$9.50/BBL. IT CLEAR THAT GOJ, AND AT LEAST PART OF BUSINESS COMMUNITY, BECOMING INCREASINGLY AWARE OF DAMAGE HIGHER OIL PRICES CAN DO TO ECONOMY. END SUMMARY.

1. IN WHAT COULD PROVE TO BE A SIGNIFICANT DEVELOPMENT IN EFFORTS TO CONTROL WORLD OIL PRICES, IT APPEARS THAT GOJ HAS BEEN SUCCESSFUL IN INFLUENCING PRICE WHICH JAPANESE FIRMS BID FOR OIL IN RECENT SALE IN KUWAIT. JAPANESE OIL TRADE PRESS REPORTED FEB. 20 THAT TEN JAPANESE FIRMS WHICH PARTICIPATED BID WITHIN 42 CENTS OF EACH OTHER FOR KUWAITI OIL--FROM LOW OF \$9.05 TO HIGH OF \$9.47

PER BARREL. THIS BID RANGE WAS CONFIRMED TO EMBASSY BY ONE OF BIDDERS INVOLVED.

2. AS NOTED IN REFTEL A, IT APPEARED PRIOR TO SALE THAT MITI WAS GUIDING OIL COMPANIES IN MAKING "PROPER" BID. SUBSEQUENT TO SALE, JAPANESE COMPANIES HAVE INDICATED TO EMBASSY THAT MITI GUIDANCE IN THIS CASE CONSISTED OF FOLLOWING THREE DON'TS: A) DO NOT BE A PRICE LEADER IN BIDDING FOR DD OIL; B) DO NOT IN ANY CASE BID ABOVE 93 PERCENT OF POSTED PRICE; C) (FOR TRADING COMPANIES) DO NOT BUY OIL FOR WHICH YOU DO NOT HAVE CUSTOMER. AS INDICATED REFTEL A, MITI ALSO APPARENTLY GAVE REFINERS AND TRADING FIRMS ADVANCE INDICATION OF PRICE LEVEL FOR PETROLEUM PRODUCTS THAT WOULD BE ALLOWED AFTER CURRENT PRICE FREEZE NOW IN EFFECT ENDED.

3. TWO TRADING FIRMS HAVE SEPARATELY TOLD EMBASSY THAT THEY HAD ADVANCE INDICATION RE GENERAL LEVEL OF BIDS TO BE MADE BY FIRMS OF OTHER COUNTRIES. NISSHO-IWAI (MAJOR TRADING COMPANY) SOURCE SAID MITI GUIDANCE HAD INCLUDED INFORMATION ON GENERAL TREND OF EUROPEAN BID LEVELS. (ACCORDING GULF OIL, U.S. INDEPENDENTS DID NOT TAKE PART IN BIDDING BECAUSE OF EMBARGO). SOURCE IN ANOTHER MAJOR TRADING FIRM ALSO SAID HIS FIRM WELL AWARE OF PROBABLE GENERAL RANGE OF BID PRICES BY ALL PARTICIPANTS, INCLUDING THOSE OUTSIDE JAPAN. (LATTER SOURCE CAUTIONED CONFIDENTIAL

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THAT THIS INFORMATION VERY SENSITIVE BOTH FROM AN INTERNAL ANTI-TRUST POINT OF VIEW AND BECAUSE OF ADVERSE REACTION BY PRODUCERS).

4. SOURCE IN DAIKYO OIL CO. (ONE OF BIDDERS) LATER TOLD EMBOFF THAT BULK OF EUROPEAN BIDS HAD BEEN IN \$8.50-\$9.00 RANGE; JAPANESE BIDS HAD BEEN IN \$9-9.50 RANGE. DAIKYO SOURCE ADDED THAT HIGHEST BIDS (AT \$16) WERE MADE BY GERMAN,

ITALIAN (NOT-ENI), AND BELGIAN FIRMS. HOWEVER, JAPANESE SUSPECTED THESE LATTER BIDS EITHER PRESS PLANTS OR "DUMMY BIDS" ARRANGED BY KUWAIT.

5. BOTH JAPANESE AND AMERICAN SOURCES IN TOKYO HAVE EXPRESSED CONCERN OVER HOW KUWAIT WILL REACT TO LOW AND CLOSELY GROUPED BIDS. DAIKYO SOURCE SAID HIS INFORMATION WAS THAT KUWAITI CABINET WAS "PERPLEXED" BY THIS DEVELOPMENT, AND MIGHT DECLARE BIDDING INVALID AND ANNOUNCE ANOTHER SALE.

6. COMMENT: NUMBER OF FACTORS APPEAR TO BE INVOLVED IN MITI'S SUCCESS IN INFLUENCING BID PRICES. A) WHEREAS JAPANESE FIRMS PRIOR TO JAN. 1 WERE EAGER TO BUY OIL AT ALMOST ANY PRICE, SITUATION HAS NOW CHANGED DRASTICALLY. IN FACT, SEVERAL JAPANESE FIRMS HAVE BEEN FORCED TO WITHDRAW, OR SELL AT HEAVY LOSSES, OIL FROM DEALS IN NIGERIA, LIBYA, AND IRAN BECAUSE THEY COULD NOT FIND CUSTOMERS IN JAPAN WILLING TO PAY SUCH HIGH PRICES; B) CLEAR INDICATION THAT MITI WILL NOT ALLOW OIL REFINERS IN FUTURE TO RAISE PRICE AS MUCH AS THEY WOULD LIKE ALSO ACTED TO FOSTER MODERATE ATTITUDE AND C) JAPANESE BELIEVE EUROPEANS HAVING SIMILAR TROUBLE IN PASSING ON HIGH CRUDE OIL COSTS. COMBINED WITH THESE ECONOMIC FACTORS, MITI'S SPECIFIC GUIDANCE TO PROSPECTIVE BIDDERS SEEMS TO HAVE PERSUADED JAPANESE TO BE VERY CAUTIOUS IN BIDDING. WHETHER OR NOT THIS ATTITUDE WILL CONTINUE, PARTICULARLY IN SALES WHERE U.S. INDEPENDENTS ARE ACTIVE, IS ANYONE'S GUESS; HOWEVER, IT IS CLEAR THAT GOJ, AND AT LEAST PART OF BUSINESS COMMUNITY, BECOMING INCREASINGLY AWARE OF DAMAGE THAT HIGHER CRUDE OIL PRICES COULD CAUSE JAPANESE ECONOMY.

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